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AICPA *Washington Report*

March 14, 1977, Volume VI, Issue 3

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AGRICULTURE, DEPARTMENT OF

Revisions to the Business and Industrial Loan program regulations, consolidating and revising certain of their regulations under the Guaranteed Loan Programs appeared in the 3/3/77 Fed. Reg., pp. 12145-60. Among other things, the revisions allow accountants' fees to be included in the reasonable costs which may be included in the loan amount. The regulations require an opinion by an "independent recognized consultant" on the reliability of the applicants' financial projections and an assessment of their cost accounting system, in addition to an annual audited financial statement prepared by a CPA or LPA. Comments are being accepted on these regulations until 4/4/77.

COMMUNITY SERVICES ADMINISTRATION

Regulations implementing the 1977 Summer Youth Recreation Programs appeared in the 3/10/77 Fed. Reg., pp. 13292-96. The regulations are basically the same as those issued last year except that certain requirements, including financial reporting requirements, have been changed to reflect implementation of OMB Circular A-110 and FMC 74-7. The regulations call for certification by a CPA or LPA of the adequacy of the accounting system and internal controls for statements submitted by private non-profit agencies or public agencies whose accounting systems will not be maintained by a public agency. The regulations are effective 4/11/77, and comments are being accepted.

FEDERAL DEPOSIT INSURANCE CORPORATION

Finalized amendments to the FDIC's securities regulations appeared in the 3/9/77 Fed. Reg., pp. 13104-07. The purpose of the amendments is to conform the regulations with those of the SEC with respect to disclosure of interim results in financial reports. The amendments will be effective for financial statements filed with the Corporation for periods beginning subsequent to 12/20/76, but disclosure of comparative data will not be required for periods beginning prior to that date.

The 1976 Annual Report of the Corporation has been released. The report is a summary of the activities and operations for the past year, including sections on bank examinations, mergers, enforcement and legislation. An expanded report will be released later in the year. Copies are available by calling 202/389-4221.

FEDERAL ENERGY ADMINISTRATION

A series of Citizen Town Hall Meetings on National Energy Policy will be held between 3/14 and 3/21/77 as part of an effort to obtain the comments and recommendations of individual citizens on the appropriate goals and actions for a comprehensive national energy plan (see 3/8/77 Fed. Reg., pp. 13046-47). Comments are particularly solicited on the following issues: conservation; imported energy; supply development; environment; federal regulation; intergovernmental relationships; and citizen participation. Dates and locations of the meetings are: 3/14 - Dallas, Seattle; 3/15 - San Francisco, New York City; 3/16 - Philadelphia; 3/17 - Boston, Atlanta; 3/18 - Kansas City, MO; 3/21 - Chicago, Denver. In addition, written comments are being requested and should be filed by 3/21/77.

HEALTH, EDUCATION, AND WELFARE, DEPARTMENT OF

A new Health Care Financing Administration has been established to administer the Medicare and Medicaid programs. In a reorganization plan announced last week

by Secretary Califano, all cash assistance payments, including welfare, are consolidated under the Social Security Administration and the Social and Rehabilitation Service is abolished. Finally, a new Bureau of Student Financial Assistance will be established within the Office of Education to direct all HEW student financial assistance programs. Details of the reorganization appeared in the 3/9/77 Fed. Reg., pp. 13262-63.

"Partnership for Health Act: Lessons from a Pioneering Block Grant" is a report from the Advisory Commission on Intergovernmental Relations (ACIR) which describes the Commission's suggested cost sharing program whereby federal reimbursement would be provided for a fixed percentage of state and local expenditures in certain public health areas. This proposed cost sharing approach would replace the current Partnership for Health Program and 21 categorical grants in preventive and protective health areas. A copy of ACIR's report (A-56) is available by calling the Commission at 202/382-4953.

LABOR, DEPARTMENT OF

Legislation to consolidate the DOL and Treasury functions with respect to the administration of ERISA has been introduced by Reps. Dent (D-Penn) and Erlenborn (R-Ill). The bill (HR 4340) would establish a new Employee Benefit Administration, headed by a Board of Directors consisting of the Secretaries of Labor and Treasury, and one other person appointed by the President. The Pension Benefit Guaranty Corporation would retain its present identity, but the members of its Board of Directors would be identical to that of the EBA, and the PBGC reporting requirements would be consolidated with the annual report to be filed with the EBA. A summary of the bill's provisions appeared in the 3/3/77 Cong. Record beginning on p. E1209.

OFFICE OF MANAGEMENT AND BUDGET

Legislation to establish a Federal Program Information Center to serve as a single, comprehensive source of information on all federal domestic assistance programs for state and local governments has been introduced by Sens. Kennedy (D-Mass) and Biden (R-Del). The Center would also publish a catalog of federal domestic assistance programs. The bill (S.904) is similar to a measure sponsored by Sen. Kennedy last year and would authorize development of a computerized information system to facilitate the wide-spread dissemination of program information by use of remote computer terminals.

PRIVACY COMMISSION

A meeting of the Privacy Protection Study Commission will be held 3/16 and 3/18/77 in Room 6202 of the Dirksen Senate Office Building, and on 3/17/77 in Room 155 of the Russell Senate Office Building. A discussion of Commission business, as well as the Commission projects on employment and personnel, public assistance and social services, government access, implementation issues, and draft recommendations will be conducted. For further information, call Mr. John Barker at 202/634-1477.

The AICPA Special Committee on Privacy Legislation has submitted its comments on the potential effect of privacy legislation on the public accounting profession. In order to utilize a frame of reference for the Committee's comments, many of the comments relate to HR 1984, the Comprehensive Right to Privacy Act, which was introduced in the 94th Congress.

Anyone wishing to receive one free copy of the AICPA comments may do so by contacting our Washington office prior to 3/23/77. Telephone requests are encouraged and should be directed to extension 47.

RENEGOTIATION BOARD

The resignation of Chairman Rex Mattingly and members Christopher Sylvester and Norman Houston have been accepted effective immediately by the President. It was also announced that the President intends to nominate Goodwin Chase, a banker and present member of the Board, as Chairman. In addition, William McQuillen and Harry Van Cleve will also be nominated to be members of the Board. Mr. McQuillen was formerly Counsel to the House Banking Subcommittee on Renegotiation and Mr. Van Cleve is presently the General Counsel of the Cost Accounting Standards Board.

Legislation to reform Board procedures and to make the Renegotiation Act permanent has been reintroduced by Rep. Minish (D-NJ). The bill (HR 4082) is identical to a bill passed by the House last year and hearings are expected to begin later this month or in early April.

Sen. Mathias (D-MD) has introduced legislation (S.822) which would abolish the Board. In introducing the bill, Mr. Mathias stated that the Board does not do its job, that small firms are disproportionately subject to the Board's determinations, and that the Board uses inadequate measurements in its audits.

SECURITIES AND EXCHANGE COMMISSION

The filing requirements of certain prospectuses and registration statements have been amended (see 3/7/77 Fed. Reg., p. 12880). In Rel. No. 33-1581, the Commission reduced the number of copies of prospectuses required to be filed and announced that certain data will be required to be set forth on the front pages of the documents in question. The purpose of the amendments is to reduce the filing burden on issuers and to improve the processing time for the documents involved. The amendments are effective upon publication.

A recommendation to terminate the voluntary disclosure program relating to questionable payments may soon be placed before the Commission, according to SEC staff members. At a recent conference on SEC matters, several staff members indicated that such a recommendation may be made soon after Chairman Hills leaves the Commission. Reportedly, following termination of the program, companies that have made questionable foreign payments and have not reported them to the SEC face possible legal action.

A proposal to adopt new rules and modify existing rules to conform its lease accounting and disclosure rules to those recently adopted by the FASB has been issued (SEC Rel. No. 33-5812, 3/9/77). In making the proposed change the Commission noted that the November 1976 issuance of FAS 13 "provides improved standards of accounting and disclosure. . ." The FASB requires retroactive application of FAS 13 for calendar or fiscal years beginning after 12/31/80. The Commission is proposing that financial statements filed with it for fiscal years ending on or after 12/25/77 be restated in accordance with FAS 13 provisions. Comments will be accepted until 5/31/77.

SMALL BUSINESS ADMINISTRATION

"Marketing for Small Business" is the title of a pamphlet designed to assist managers of small businesses to understand and develop marketing programs for products

and services. It includes information on marketing objectives, identifying target markets and developing a marketing program, in addition to a bibliography of other useful information. Copies of the pamphlet (Small Business Bibliography No. 89) are available free from SBA field offices or Washington headquarters at 202/653-6365.

TREASURY, DEPARTMENT OF

A certificate from a qualified physician attesting to a taxpayer's permanent and total disability must be attached to tax returns filed by taxpayers claiming the new disability income exclusion. According to the IRS, in IR-1773, for those who retired on disability prior to 1/1/76, the certificate should attest to the taxpayer's permanent and total disability as of that date. For those who retired on or after 1/1/76, the certificate should attest to the permanent and total disability at the time of retirement.

The AICPA Federal Tax Division has filed another letter requesting revocation or substantial modification of Rev. Rul. 76-453 relating to the tax treatment of certain types of employee's travel expenses. The letter, addressed to Assistant Secretary for Tax Policy Woodworth, says that the issue is both one of tax equity and of energy conservation. The Tax Division contends that to allow the ruling to go into effect on July 1 would be "a clear incentive for thousands of taxpayers to drive extra miles in order to carry out their legitimate business activities and also to waste their time by following an illogical planning of their day's work schedule".

Anyone wishing to receive one free copy of the letter may do so by contacting our Washington office prior to 3/23/77. Telephone requests are encouraged and should be directed to extension 47.

The Tax Reduction and Simplification Act of 1977 has passed the House. The bill (HR 3477) retains the \$50-per-person rebate on 1976 taxes, which is to be phased-out for those earning between \$25,000 and \$30,000; includes an employment incentive credit of \$1,680 per worker hired, up to a maximum of \$40,000 per year; an increase in the standard deductions to \$2,400 for singles and \$3,000 for couples; and, changes to the tax tables to simplify the tax forms and computations. The bill also extends through 1978 the individual and corporate tax reductions due to expire at the end of this year.

The Senate Finance Committee has been holding hearings on the bill and expects to begin mark-up of a draft of their recommendations sometime this week.

A special task force of the House Ways and Means Committee to study certain specific issues involving the taxation of foreign source income has issued its recommendations. Chairman Rostenkowski (D-Ill) of the task force noted the areas of concern were the tax treatment of shipping income; the exclusions from tax of certain earned income of private employees abroad and of overseas allowances of government employees; state taxation of foreign source income; the limitations on foreign tax credits; and, the deferral of tax or income derived from foreign corporations controlled by U.S. shareholders. A summary of the report's conclusions and recommendations appeared in the 3/9/77 Cong. Record, pp. H1917-19.

The first in a new annual series of reports concerning data on high income taxpayers emphasizing tax returns with little or no tax liability has been released. "High Income Tax Returns: 1974 and 1975" summarizes conclusions drawn from high income tax return information, and examines (1) the importance of the concept used to

measure income, (2) the number of high income returns, and (3) the importance of various provisions in the tax law in enabling individuals with high incomes to minimize or avoid Federal income taxes. Copies of the report are available by calling 202/566-2041.

SPECIAL: HEARINGS ANNOUNCED ON METCALF STAFF REPORT

The Reports, Accounting and Management Subcommittee of the Senate Governmental Affairs Committee has announced the date for hearings on the staff report entitled "The Accounting Establishment". The hearings, to be chaired by Sen. Metcalf (D-Mont), billed as hearings to examine government accounting and auditing practices and procedures, will be held April 19 and 20, and May 10, 12, 24 and 26 in Room 3302 of the Dirksen Senate Office Building.

SPECIAL: ACIR PUBLISHES REPORT ON MANAGEMENT OF FEDERAL GRANTS

"Improving Federal Grants Management" is the title of the latest report in ACIR's series on the intergovernmental aid system. This report looks at measures of an organizational or procedural nature intended to remedy defects in the operation of categorical grants, to improve management of the categorical grant system within the executive branch. It includes a history of past attempts at reform and a description of the role of various agencies, such as OMB and the Domestic Council. Copies of the report are available from ACIR by calling 202/382-2116.

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